

CHAPTER 19

ECONOMIC CHANGE AND THE CRISIS OF THE 1890's

STUDY GUIDE QUESTIONS	
19.b.1	Capitalism, Socialism, Liberalism
19.b.4	Henry George
19.b.5	Rate your Economic Views
19.b.6	Homestead and Pullman Strikes
19.c.1	Populist political demands
	History of Gold
19.d.4	Unlucky Strikes

[b.1]

CAPITALISM, SOCIALISM, & LIBERALISM

*Business
code of the
late 1800's*

Liberalism. Liberalism was the business code of the Gilded era. The meaning of liberalism has changed since 1875. In other words, calling someone a liberal in 1875 conveyed a different idea than calling someone a liberal today.

*Origins of
Liberalism*

Liberalism started in England and spread. Capitalism provided its underpinning. When you compare socialism with liberalism in the chart below, you will see how closely linked liberalism and capitalism are. You will also see why socialism threatened the business code of liberalism. Pay particular attention to the category entitled "How is Human progress achieved?"

*Tenants of
classical
liberalism*

- Liberals belonged to the business and professional classes.
- favored written constitutions guaranteeing "liberty".
- Believed that government should **not** tamper with the economy.
- Believed in public education.
- Believed in freedom of the press.
- **Reluctantly** accepted universal right to vote.
- antiunion.
- Believed in international free-trade (no tariffs)
- Believed progress came to humanity gradually, through the power of inventions, scientific discovery, and economic prosperity, and the proper representation of business interests in government.

- Profoundly civilian attitude. Disliked spending money on armies and navies.
- Viewed radical religions with suspicion but welcomed the stabilizing influence of mainstream denominations.
- Viewed aristocratic pretensions as a throwback to the medieval era .

COMPARISON CHART



CAPITALISM



SOCIALISM

*Who owns
productive
capital?*

All means of production (capital)-- money, credit, resources, machinery, and property--are in the hands of private ownership.

Industry and finance are owned by the people, more specifically the workers. Socialist countries today nationalize their key industries, putting them under government control, which acts in the interests of the people.

*Type of
Government?*

Classical liberalism calls for **democratic** government. However, not all capitalist economies embrace democracy. Nazi Germany supported "state capitalism". Under this system, individual owners of heavy industry could realize profits but the government could tell them what to produce. Fascism is state-guided capitalism.

Socialist leaning countries like England, Sweden, and Canada are **democracies**. Others, like China, North Korea, & Cuba, are not.

*Should gov't
regulate the
economy?*

NO. Classical liberalism believes that "market forces" and the "law of supply and demand" should determine what is produced and at what price.

Actually, not even hard-core capitalist nations like the United States let their economies go unregulated. Major industrial powers like the US, Japan, and Germany allow government regulation of the economy to dampen the ups and downs of the economic cycle. A good example of regulation would be the Federal Reserve Board, clean air acts, antitrust laws, and the imposition of tariffs to protect domestic industries. Medicare and Medicaid show that Americans are comfortable with government providing health care so as not to expose the health of the nation

YES. The government either centrally plans the economy (communism) or acts as the principal coordinator or owns basic industries and services (socialism).

However, some communist countries allow capitalist activity in certain enclaves (look at Hong Kong) and will trade with capitalist nations (note the new accords with Vietnam).

to inhumane "market forces."

*Why
produce?*

for profit.

for need.

*Unit of
historical
analysis*

Liberal capitalism views history as conflict between **nations**.

Socialists view history as conflict between **classes**.
Staunch socialists are dedicated to the World-Wide revolution of the working class.

*Are human
societies
progressing?*

Yes. Classical liberalism espouses the belief that progress for humanity will occur as the natural result of the increase of goods and services. Capitalists will, for sure, realize profits; the idea is that every one else will be working and partaking of prosperity. Progress occurs, therefore, gradually. Reform, when needed, occurs through legislative action.

Yes. Socialists believed in "evolutionary" progress. Followers of Karl Marx believed that violent revolution would rid society of classes by abolishing private ownership of the means of production. By overthrowing the capitalists, a classless, utopian society could be created. Hence, mankind progresses.

*Are unions
acceptable?*

No. Capitalists dislike unions because it blocks their access to labor--the only asset of production the capitalist cannot own in a free society. Unions were not truly legalized in the US until the Wagner Act of 1935.

Yes. But union are only a means to an end. They are useful to develop class consciousness, but that's all. Radical socialists believe that unions draw attention away from class struggle and the ultimate goal of revolution. Joining a union signals intent to "bargain" with the capitalist and accept the wage system.

*Founders
and
important
books*

Adam Smith, an Englishman, published *The Wealth of Nations* in 1776. This work has long been regarded as the bible of capitalism. Ayn Rand's postivism is an extreme example of market force advocacy.

Modern socialism was founded by Karl Marx (d. 1883). Vladimir Lenin and Mao Zedong used his theories to establish socialist states in Russia (1917) and China (1949). Marx's most important work was *Das Kapital (Capital)*, published in 1868. *Capital* is a stinging critic of capitalism.

*Influential
Americans of
the Gilded*

Andrew Carnegie
JD Rockefeller

Eugene Debs
William Haywood

Age JP Morgan
William McKinley

John Reed
Emma Goldman

[b.4] HENRY GEORGE (1839-1897)

Henry George was no Marxist, but he fashioned a powerful critique of capitalism. In his book *Progress and Poverty* (1877-79) George argued that everyone has a right to earn a living from the land and resources. "Economic rent," as he called it, was "parasitism." His solution was simple: tax 100% all profits derived from land value increases. This "single" or "land" tax could be redistributed in public works. Most critics did not believe in George's theories, but the working class loved him. When he died, 100,000 people filed by coffin in New York's Grand Central Palace.

[b.5] RATE YOUR ECONOMIC POSITION

Click [Rate your Economic Views](#) to determine if you are a socialist, capitalis, or a "free and equal associationist."

[b.6] COMPARISON CHART OF TWO MAJOR STRIKES

	HOMESTEAD (1892)	PULLMAN (1894)
<i>Issues</i>	Stepped up production demands.	Pullman rail company slashed wages by 1/3 but keeps prices high in the company towns.
<i>Leaders</i>	Labor: the Amalgamated Association of Iron & Steel Workers union. Management: Henry Frick, Carengie's plant manager	Labor: Eugene Debs leads the American Railway Union (ARU).
<i>Tactics</i>	Labor strikes to obtain better working conditions. Management hires Pinkerton guards and requests the National Guard to crush the strike. Violence ensues.	Labor strikes. Other unions joined the ARU in the strike, creating severe problems for Pullman. Management requests help from the Illinois National Guard. Governor Altgeld refused, telling Pullman to negotiate. Pullman appeals to president Grover Cleveland, who ordered the army to crush the strike on the pretext that it was disrupting mail service.
<i>Results</i>	Popular opinion leaning toward labor when	Management wins. Debs is jailed for 6

Alexander Berkman attempted to assassinate Frick. America won't tolerate that kind of industrial violence. Management crushes the strike, imposing lower wages and longer hours. No effective steel union would be formed in the US until 1937.

months but his popularity sources, paving the way for socialist gains over the next 20 years.

effects

Homestead and Pullman showed how ugly labor-capital confrontations could be. The most notable ingredient in these strikes is the roll of government: Federal and/or state power intervened with troops to break the idea of "collective bargaining." It would not be until 1935 that labor was granted collective bargaining rights.

GOLD

Brief history of gold in America

Like the fur trade until 1836, gold played a major role in the development of the West. Capital flowed to virtually uninhabited regions, accelerating the growth of cities far faster than would have occurred naturally. In the case of the California Gold Rush the influx of miners populated newly acquired California. By 1852, 250,000 Americans lived in California, a place that counted only 500 in 1846. Combined with the port of San Francisco, the future economic power of California became plainly evident.

Famous gold rushes

- 1859 Colorado
- 1859 Nevada
- 1860 Idaho
- 1862 Montana
- 1876 Black Hills, South Dakota
- 1892 Cripple Creek, Colorado
- 1897 Klondike, Alaska

How gold was shipped

When transfers of gold to Europe were necessary to make a payment, the Bank of New York prepared the shipment. Gold coin was placed into canvas bags and stuffed into kegs called "specie kegs." Each keg held \$50,000 and was then sealed with red tape bearing the stamp of the shipper. Many firms never trusted more than 5 kegs per ship, and many insurance companies would not ensure the gold cargo at all. Gold bars were rarely shipped because almost all the gold available in the world was minted into coin to accommodate rising global trade.

Gold becomes the official standard

In 1900, gold became the official US monetary standard. It had survived the appeal of silver (see below).

[c.1]

POPULIST METAL DEMANDS

It was because gold coin circulated in relatively low quantities that populists demanded coinage in silver at the ratio of 16 parts silver to 1 part gold. Populists expected that the new, more plentiful coin would alleviate the chronic debt of farmers and reduce the amount of interest on the mortgages by enabling them to pay them off faster.

[d.4]

UNLUCKY STRIKES (for the advocates of silver)

*New
mines.*

The 1892 and 1897 gold strikes listed above hurt the Populist movement. The sudden expansion of the gold supply (or promise of it) weakened the movement toward "free silver" favored by farmers and other westerners.

*J.P.
Morgan
sells gold
to US
gov't*

Not only did new gold strikes buoy up gold, but so did the sale of 3.5 million ounces of gold to the US government. In 1895, as US gold reserves fell to \$45 million, President Cleveland authorized the purchase of \$65 million worth of gold from J.P. Morgan. When the New York bankers realized interest profits of \$1.5 million, the Populists cried foul. Nonetheless, this government purchase and another one later in the year boosted faith in the gold standard.

WWW SITES

- [The Richest Man in the World: Andrew Carnegie](#) (PBS)
- [Robber Barons Page](#)

[back to 1302](#)